



Commitment

2017
Annual Report



FROM THE President

Commitment – a fitting theme for our annual meeting this year. Here at HCU, we've been working hard on your behalf to create the best credit union around! As part of this, we've done some soul-searching about who we are and how we can best meet your needs; not only today, but for years to come. Through this process, we have developed our Truths, a set of beliefs that are fundamental to how we do business and represent our commitment to our members. I would like to share these, as I feel it's important for you to understand what drives your credit union.

Our purpose is to serve.

Being our members' trusted financial partner starts with providing them the best possible member experience. From making someone feel like they're our number one priority to finding solutions for every member no matter what your situation, outstanding service is integral to who we are and what we do.

We value people.

Caring for others isn't just something we do during work hours, it's part of who we are. From helping members better their lives to helping employees find work-life balance, we believe in taking the time to understand each person and recognize their value. Because we see tremendous potential in our employees and volunteers, we're a learning organization that invests in continual education that empowers our team to grow and flourish.

Community is at our core.

We are better together! Our lives are linked with the communities we serve, so we take

pride in helping members of our communities improve their lives. We don't just see numbers and statistics, we see real people with dreams, goals, and needs. We make a difference by living the credit union philosophy of "people helping people" through financial support, fundraising, and volunteer efforts.

We embrace change.

Our members' needs continue to evolve, so we're committed to evolving with them and for them. By continually seeking innovations in technology, delivery systems, and management approaches, we ensure that we serve both the members we have today and future generations of members.

We deliver results.

We move at a fast pace to stay competitive in our market and deliver extraordinary value to our members. That's the reason we're truly the best at what we do. By helping people find the right solutions for their needs, we strengthen both our members and our credit union as a whole.

Ultimately, our Truths make us who we are at our core. In fact, you might even say It's the Heartland Way! As we look to 2018 and beyond, they will guide us and our decisions to ensure that we remain the strong and innovative credit union that we are today. Thank you for being a member of HCU and for being part of something special.

Committed to Growth



REPORT OF THE Chairman of the Board

Thanks to our qualified staff and Volunteers, 2017 was another positive and productive year at Heartland Credit Union. More importantly, because of the commitment our members made to the credit union, we ended the year with total assets of \$306.4 million, an increase of 9.54% since 12/31/2016. Heartland Credit Union posted net income of \$1,891,360 for 2017.

Some important highlights from this past year include:

- At year end, HCU was made up of 24,934 members, 22 volunteers, and 126 employees.
- During 2017, in our national peer group of 341 credit unions, HCU ranked #21 in terms of "Return to the member" as calculated by Callahan & Associates. For this same "Return to the member" calculation, HCU ranked #223 out of all 5,689 U.S. credit unions.
- HCU is #7 in asset size out of 83 credit unions in Kansas. HCU is #785 in asset size out of 5,689 U.S. credit unions.
- In April of 2017, HCU opened the new branch at 37th and N. Maize Road. The new 13,500 square foot branch is the flagship of our Wichita branch network and signals a strong

commitment to our members in the Wichita area.

- The servicing portfolio of Members Mortgage Services topped \$1.4 billion, representing over 14,000 mortgage loans. MMS now employs 36 and serves 39 credit unions in Kansas, Missouri, Nebraska, and Iowa. Other developments included adding Freddie Mac as an investor to give their partner credit unions more options and starting a Government loan broker program.

Our financial cooperative is successful because of the commitment our members make to utilize the services of the credit union. Your participation in the credit union helps HCU grow and provide even better service to the membership. Thank you for your continued support.

Rex Christner
Chairman, Board of Directors



Rex Christner
Chairman



Roy Broxterman
Vice Chairman



Kendal Pulliam
Secretary & Treasurer



Caroline Phelps



John McCannon



Mark Woleslagel



Richard Carlisle

Board of Directors

Committed to Integrity



REPORT OF THE Supervisory Committee

The Supervisory Committee is charged with ensuring that Members' assets are safeguarded. They accomplish this through the following:

- Oversight of the Internal Audit Program
- Reviewing Policies and Procedures
- Evaluating and Reviewing the Credit Union's Financial Condition
- Interacting with Credit Union Management
- Cooperating with Regulatory Agencies
- Reviewing Activities of the Board of Directors and Other Committees

In order to fulfill these responsibilities and provide an objective view of the financial strengths and weaknesses of your Credit Union, the Supervisory Committee relies on and uses a variety of resources, including an Internal Auditor. This allows the Supervisory Committee to proactively monitor the high risk areas of the credit union on a regular basis.

The Certified Public Accounting Firm of Nearman, Maynard, Vallez, P.A. was employed to conduct the Annual Audit as of 9-30-17. Their report concluded that our records represent fairly and accurately the financial position of your credit union and conform to Generally Accepted Accounting Principles.

Nearman, Maynard, Vallez, P.A. also audits the records of HCU Investment & Insurance Services in conjunction with the HCU audit, and HCU Investment and Insurance Services was found to be in good order. Our other CUSO,

Members Mortgage Services, was audited as of 12-31-16 and received a clean audit. Their 2017 audit fieldwork was scheduled for the first week of March 2018, and will be completed by March 30th.

In addition, the committee cooperates fully with regulatory examinations by the Kansas Department of Credit Unions and the National Credit Union Administration. Any records of action are followed up by the Supervisory Committee.

The most recent exam covered transactions up to the close of business on March 30, 2017. There were no material deficiencies cited.

Finally, the Supervisory Committee relies on its own activities and findings:

- The Committee met several times during 2017 to conduct reviews of various policies, procedures, accounts and reports.
- Staff members from various areas report to us about their operations in their respective departments.
- Committee members take turns attending Board of Directors meetings.

In summary, the Supervisory Committee is glad to report to members that your funds and records are being maintained in a safe, sound and confidential manner.

Lori Blakesley
Chairperson, Supervisory Committee



Lori Blakesley
Chairperson



Marvin Schmucker



Ed Howard



Mike Juby



Elizabeth Beck

Committed to Soundness

LOAN REPORT		
CATEGORY	2017	2016
Total number of loans made	33,300	30,520
Total dollar volume of loans made	\$147,045,444	\$140,074,202
Number of loans since April 1, 1948	511,183	477,883
Total volume of loans since April 1, 1948	1,900,180,337	1,753,134,894
Loans charged-off since April 1, 1948	6,068,735	5,342,572
Recoveries from charged-off loans	624,801	560,396

REPORT OF THE Credit Committee

The Credit Committee is responsible for insuring lending policies of the credit union, as established by the Board of Directors, are carried out by the loan officers. The committee meets periodically to review reports of new loans, delinquencies, charge-offs and randomly review loan files to insure compliance. Types of loans, portfolio changes, and the overall loan pricing structure as well as new products and services are also reviewed.

Notable information and actions in the lending area during the year include the following:

- Loans for the year increased 12.1% to \$27.2 million; total outstanding loans to members is \$252,148,330.
- Home loan activity for 2017 was strong with 413 home loans funded for \$42 million. Purchases activity was up considerably with 67% of the total amount for new purchases and 33% for refinancing activity. Home loans sold to the secondary market during the year with servicing retained by Members Mortgage Services was also strong with 261 loans totaling \$29.6 million.
- At year end, HCU member business loans totaled \$68.8 million, approximately 27% of total loans.

- Delinquency averaged 1.20% for the year, up from 2016 (0.88%). Our credit union peer average for the year was 0.86%.
- Net-charged off loans for 2017 as a percentage of outstanding loans was 0.28%, up slightly from 2016 (0.26%). Our credit union peer average for 2017 was 0.53%.
- The Allowance for Loan Loss account remained fully funded for the year and ended at \$2.15 million.
- At year end, 100% of member shares were reinvested in member loans compared to our peer average of 75.05%.

Jim Ewert
Chairman, Credit Committee



Jim Ewert
Chairman



Leila Emack



DeAngelo Green



Brock Wells



Dan Busenbark

Committed to Success

BALANCE SHEET		
ASSETS	2017	2016
Loans, Net of Allowance for Loan Losses	\$252,090,550	\$225,704,453
Cash & Investments	\$34,208,184	\$40,736,247
Other Assets	\$19,859,346	\$13,300,942
Total Assets	\$306,158,080	\$279,741,641
LIABILITIES & EQUITY	2017	2016
Other Liabilities	\$35,483,324	\$29,612,165
Share Deposits	\$242,252,330	\$223,549,415
Reserves & Undivided Earnings	\$28,422,426	\$26,580,061
Total Liabilities & Equity	\$306,158,080	\$279,741,641

INCOME STATEMENT		
CATEGORY	2017	2016
Interest Income	\$11,274,159	\$10,083,291
Dividends	(\$1,571,992)	(\$1,580,287)
Interest Expense	(\$352,574)	(\$201,292)
Net Interest Income	\$9,349,593	\$8,301,712
Non-Interest Income	\$5,262,506	\$4,898,771
Non-Interest Expense	(\$13,507,130)	(\$12,167,719)
Income from Operations	\$1,104,969	\$1,032,764
Non-operating Income	\$786,391	\$1,590,968
Net Income to Reserves	\$1,891,360	\$2,623,732

PEER EVALUATION		
GROWTH	HCU	PEER
Assets	9.44%	4.72%
Loans	11.48%	8.52%
Shares	8.37%	4.40%
Net Worth	6.93	5.46%

REPORT OF THE Treasurer

Thanks to you, 2017 was another great year for HCU. Your continued support allowed us to surpass \$306 million in assets. In addition, we paid over \$1.5 million in dividends and were able to place almost \$1.89 million of net income into our reserves. This enables us to continue offering cutting edge technologies at better than market rates while maintaining our high level of efficient and friendly service.

Included in HCU's 2017 net income is a gain from Members Mortgage Services, LLC (MMS), representing our 43.8% ownership. MMS had a positive operating income of over \$2.2 million, which was reduced by a negative adjustment to mortgage servicing rights of just over \$522,000. As mortgage rates continue to rise, we expect to see this adjustment increase and realize even higher positive income, which will increase MMS's and HCU's bottom lines. These increases are far from certain however and could go negative if rates decline.

HCU's investment in MMS of \$450,000 has grown to \$7.3 million equity over the last 16 years. This substantial income has enabled us to continue offering exceptional value in our loan and share rates, despite the increasing pressure on margins.

HCU Investments and Insurance (HCU I&I), had another successful year, with a positive contribution of \$55,001 to the HCU bottom

line. More importantly, we are able to serve your needs in this arena by providing lower cost solutions while offering an alternative to traditional credit union products.

The Board of Directors believes your credit union is financially sound, well managed and capable of continuing to fulfill its mission of offering financial services in a safe and sound manner.

As member-owners, your continued support is vital to the sustained success of your credit union. Thank you for your support.

Kendal Pulliam
Secretary & Treasurer



Kendal Pulliam
Secretary & Treasurer

Committed to Advocacy

Advocating for our members

It is important to stay on top of the political and regulatory happenings that affect our credit union and our members. That's why, in 2017, the HCU Political Advocacy Team was formed. The focus of the team is to build relationships with legislators, at both the State and Federal level, to inform and educate them on how laws, regulations and policies affect HCU and our members.

The team attended advocacy training provided by Heartland Credit Union Association. Putting this training into action, members of the team spent time at Credit Union Day at the Capitol in Topeka, Legislative forums and town halls in our local communities, and even Hike the Hill in Washington D.C. All of this is in an effort to build relationships with our lawmakers so they can better understand credit unions, and so we are more aware of issues at the State and Federal levels that could affect us. The team also works to protect the credit union movement by reminding lawmakers about the credit union difference and our mission of meeting the credit

and savings needs of consumers, especially persons of modest means.

The Advocacy Team also works to get the staff more involved in advocacy. Members of the team present information during Staff Development Days, to keep the staff up on the latest happenings. The team also heads up our Credit Union Legislative Action Council (CULAC) donations. CULAC is the federal PAC of the Credit Union National Association. The donations are used to help elect credit union friendly candidates to federal office.

The team is made up of 6 staff members that will rotate out every 2 years. Current team members are Ben Benedict, Sr. Branch Manager, Scott Cooley, Business Development Officer, Aubrey Gallagher, Compliance Assistant, Dan Springer, President/CEO, Darren Werth AVP of Marketing, and Amy White, Branch Manager. A special thank you to these individuals for giving their time to help better serve our members through their advocacy efforts.



Clockwise: Members of the HCU staff head to Topeka for Day at the Capitol; HCU staff met with Rep. Jack Thimesch in Topeka; HCU staff and other CU advocates met with Senator Berger at the Capitol; Darren Werth, AVP of Marketing, discussing issues with Rep. Roger Marshall M.D.; Aubrey Gallagher, Compliance Assistant, discussed regulatory relief with Senator Moran.

Committed to Community

Commitment to Community

We understand that HCU is only as strong as the communities we serve. In 2017, Heartland Credit Union strengthened our commitment to our communities by partnering with different schools, charities, and organizations that make our hometowns great places to live and work.

One of our new partnerships is with the Boys and Girls Club of Hutchinson. We made a three-year commitment to sponsor the Youth of the Year program and a Leadership Essentials class at Hutchinson Middle School 7. The Youth of the Year program recognizes a club member for their strong character, personal growth and leadership qualities. The winner receives a \$1,000 scholarship and advances on to the State level. The Leadership Essentials class is based on Boys & Girls Clubs of America curriculum and will help develop the leaders of tomorrow.

We also remain committed to our roots as a teacher's credit union. Through our sponsorships of school convocations, teacher grants, and PTO fundraising events, we help provide resources to the teachers that educate our children. Through our student scholarships, we provided \$6,000 to help local students achieve their dream of a higher education. We understand that an investment in our schools and students will help create stronger communities in the future.

Our chambers of commerce and young professional's groups are vital to the economic growth and quality of life in each of our communities. We are proud to be members of these organizations in all our markets. Sometimes, though, we just like to have a little fun. You never know when you might see our bright orange Treat Trike handing out ice cream at community events, whether you're in Hutchinson, Haven, Maize, Newton, or Wichita.



Top to bottom: The Avenue A staff and the Treat Trike attended the South Hutchinson National Night Out; HCU staff hanging out with Duke the Dragon at an Hutchinson Community College football game; HCU was proud to sponsor HCC's Community Day with help from our staff, Volunteers, and the Treat Trike; HCU was proud to sponsor the USD 308 Fun Run in September; HCU's partnership with the Boys and Girls Club of Hutchinson included sponsorship of the Youth of Year.

It's the
Heartland
way.™

